A Practical Approach

Export Guide

External Affairs and International Trade Canada

Canada

Export Guide

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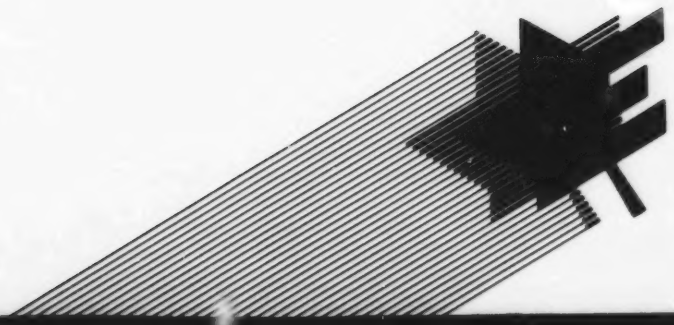

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INTRODUCTION

Exports form an essential element in Canada's economy. Canadian exports of goods and services are now running in excess of $130 billion per annum, which means that nearly 30 per cent of this country's wealth, and the livelihood of at least 3 million Canadian workers, is directly dependent on trade.

Canadian firms are penetrating the world markets in many sectors – fish, pulp and paper, computers, robotics, transportation equipment, coal, etc. The attraction of a lucrative foreign market cannot be denied. Anyone considering exporting, however, should look at both the advantages and disadvantages of taking such an important step. All too often, companies get into exporting almost accidentally by, for example, filling out an unsolicited order received from someone overseas. Conversely, firms which perhaps should export are reluctant to do so because they lack information or fear the process.

There is also a belief that only large companies can export. This is false, as studies have shown that many small manufacturing firms have succeeded in the international marketplace by taking advantage of niches not serviced by large corporations. Usually, the multinational firms concentrate expansion into those markets that offer the greatest potential profit and knowingly bypass smaller markets. Those bypassed segments can serve as profitable markets for the small exporter. Furthermore, smaller firms are usually able to react more quickly to changing conditions, can handle smaller production runs, and can meet special demands more easily.

Some of the advantages and disadvantages of exporting are listed below.

ADVANTAGES

Increased sales. This is an important factor, particularly where firms find their domestic sales stagnating due to a saturation of the market, strong competition or both. Companies should not consider exporting when times are tough in the domestic market. The best time to start exporting is when domestic operations are doing well.

Higher profits. Profits can rise faster than sales, as the fixed costs are already covered by existing Canadian sales.

Lower unit cost of production. The more products that are created, the cheaper the cost of producing the product. This is true when the existing plant equipment can handle the increased output.

Greater utilization of plant capacity. When the domestic market served by a firm is unable or unwilling to absorb the output the firm is capable of producing or actually is producing, then export markets can serve as outlets for this surplus production.

Offset cyclical downturn. Canadian industry is generally cyclical, and if activity can continue for the export market when the Canadian scene is depressed, employment can continue and manufacturing costs will be reduced. The commitment to export, however, must be long term and non-cyclical.

Reduction of dependence on single traditional market. The more diversified the markets a company has, the safer its future.

Extended life for the product. This applies to a product approaching the mature stage of its life in Canada, but just entering the markets of the less developed countries.

New knowledge and experience. A number of firms have learned new product ideas, together with the use of new competitive approaches and channels of distribution, that have been applicable to their domestic market.

DISADVANTAGES

Exporting costs. The upfront costs of export marketing are expensive. There is additional travel, time and expense involved in developing export markets. Additional (or retrained) staff to handle exports are also needed.

Increased paperwork and shipping costs. Both the country of origin and the country of destination require certain documentation to clear products for importing and exporting.

Product modifications. Although many countries will demand products similar to those sold in North American markets, other countries may require products to be modified to meet their needs. These modifications may involve products and/or packaging.

Longer collection periods. Exporters should not expect to be paid as quickly for the goods exported as they would be for a domestic sale. The movement of goods from the factory to the final destination takes time, while import requirements in the receiving country may require 60 to 90 days to process the documents and authorize payment for such goods.

Giving the market time. Time is needed for breaking into a new and unfamiliar market. Problems will arise and constant attention will be needed to achieve success.

Lack of knowledge. New exporters may be unfamiliar with the customers, language, cultural differences, local standards, tariffs, currency exchange controls, packaging and labelling requirements, payment terms, collection of accounts, etc.

Chapter 1

DEVELOPING A CORPORATE TRADE STRATEGY

It is essential, if a company is to be successful in the export market, to have the following ingredients: a viable product; a strong senior management commitment; and strategic planning.

VIABLE PRODUCT

Prior to making any decision to export, conduct a thorough review of your firm's domestic performance and capabilities. For example, compare sales, profit margins and prices to those of the industry. If your competitors are already exporting, you may be missing a good opportunity.

Another aspect to thoroughly investigate is your firm's resources. For example, do you have the financial and human resources to research export markets? Does the company have the production capacity to ensure prompt deliveries when orders come in? Reliability is one of the most essential requirements for success in selling internationally. Therefore, it is not wise to export simply to unload surplus inventory. Such behaviour can damage Canada's reputation as a trading nation.

In determining the exportability of your product, the following factors should be considered:

- Who will use the product?
- Who will make the purchasing decisions in the foreign country?
- Will the product be purchased throughout the year or on a seasonal basis?
- From whom is the product being purchased now?
- Are there any special assembly skills required?
- Will there be a requirement for product modification in order to adapt to specific market nuances? What will this cost?
- Any special packaging requirements? What about labelling and language requirements?
- Is the product easy to ship? Any special handling costs?
- Is the product competitive on the basis of price, quality and delivery?

MANAGEMENT COMMITMENT

Developing and implementing a strategic international marketing plan requires a substantial investment of corporate resources (financial and human) for a considerable period before any profits are seen. Therefore, it is paramount that senior management be committed to exporting before embarking on such an exercise.

STRATEGIC PLANNING FOR EXPORT

Export strategy should form part of overall corporate strategy. Your company must be clear about its expectations from export business as well as fully aware of its own limitations. For example, if the company is not prepared to increase production to respond to international demand, then it should not be considering the export market. Once management decides to examine the feasibility of exporting, it should begin by scanning possible markets. These countries could be geographically close, similar in language and culture, or simply familiar to company officials. The preliminary scanning would include factors such as market size, political and economic stability, competition, distribution and profit potential. This initial survey would provide management with the information to select the four or five most likely markets for further analysis. For a more detailed investigation, the following checklist suggests many of the important issues to investigate.

1. The Market

- What are the tariff barriers, import quotas and internal taxes for the product? Have they been subject to frequent changes in the past?
- What is the size and the sector of the market purchasing the product?

- What is the long-term potential, based on future growth for each sector?
- Is there any domestic production and how competitive is it?
- Who are the major foreign competitors and what is their market share? Which foreign competitor has the largest market share and why?
- In what areas, if any, does the product excel over the competition?
- Does the cost of transportation, because of market traditions, make the product uncompetitive?
- Is the market politically and economically stable?
- Is the currency convertible?
- Are there government-imposed restrictions on foreign exchange availability?
- What are the possibilities of countertrade being demanded? (See Appendix I for more information on this subject.)

2. The Product

- Can the product be sold in the target market, or does a modification have to be made and at what cost?
- What size, colour and design are preferred by the users?
- Will assembly have to take place in the target market, and is resident expertise available?
- Will there be a need for after-sales servicing? If so, are there presently companies in the target market that can provide this service, or will locals have to be trained?
- If the product is new, has it been adequately tested?
- What are the packaging and labelling requirements?
- What technical specifications does the product have to meet in the target market?
- Does the product meet local health and safety standards?

3. Price

- What is the bottom line on pricing and what is the profitability at various pricing levels?
- Can the pricing match or better the competition and still have a healthy profit margin?
- If pricing cannot match the competition, can it still sell because of product superiority, ability to deliver and after-sales servicing?
- What are the normal terms of payment extended by competitors?

4. Distribution

- What methods of distribution are available in the country, and which is the most reliable and cost-efficient?
- What markups are normally sought by middlemen in the industry?
- What promotional assistance is normally provided by middlemen?
- Who are the main importers; what are their reputations, capabilities and financial strength?
- Does the country specify the type of distribution allowed?
- Will an exclusive distributorship or agency enhance market potential?
- How are the goods to be packed for transportation?
- What types of carriers are needed? What are the transportation costs? How frequent and reliable are the various methods of transportation – to overseas and domestic markets?
- What are the port and warehousing facilities like?
- Is there an agent capable of providing satisfactory technical services?
- Do competitors control the distribution channels so that market entry will be difficult?

5. Promotion

- What are the types and costs of advertising in the individual markets, and which are best suited to the needs of the product?
- What are the advertising practices of competitors? What percentage of their gross profit goes into advertising and what media do they advertise in?
- Where and when do trade fairs and exhibitions take place, and what opportunities exist for participating in them?

SOURCES OF MARKET INFORMATION

Market Data	Source
A. Trade	
Tariffs, rates, import policy, customs requirements, product classification, internal taxes.	1) External Affairs and International Trade Canada (geographic trade development divisions) 2) Canadian Trade Commissioner Service 3) Consulate/Embassy of country in Canada 4) *Exporters' Encyclopedia Directory*, P.O. Box 2007, Jersey City, N.J., U.S.A. (201) 547-6050 or branches in Canada 5) U.S.A. only: *U.S. Customs Directory* 1301 Constitution Avenue N.W. Washington, D.C. 20229 (202) 566-8195 6) *Exporting to the United States*, Department of Treasury, U.S. Customs Service, Washington, D.C. 20229
Export/import statistics, quantities imported from various countries, main exports, growth in market.	1) External Affairs and International Trade Canada (geographic trade development divisions) 2) *Yearbook of International Trade Statistics*, United Nations, New York 3) *U.N. Monthly Bulletin of Statistics*, United Nations, New York 4) *Statistics Canada Merchandise Exports Annual* – Catalogue No. 65-202
B. Economic/Geographic	
Economic indicators, income, purchasing power, domestic production, consumption, product usage levels.	1) *U.N. Statistical Yearbook*, Annual, U.N., New York and the *Monthly Bulletin of Statistics* 2) Statistical yearbook for the country – published by the country in English and the country's language. For Japan contact the JETRO offices in Canada.
Economic development plans.	1) Published by national governments – sometimes available in libraries in Canada

C. Country

Basic information such as size, population, neighbouring countries, chief ports, air routes, business hours, holidays, currency, weights and measures, electric current used, languages, travel facilities, banks, business customs and practices, climate.

1) Guides for Canadian Exporters, External Affairs and International Trade Canada (various country titles available)
2) *Overseas Business Reports*, U.S. Department of Commerce, International Trade Administration, Washington, D.C. 20230
3) *The Times Atlas of the World*
4) *Handbook of International Trade & Development Statistics*, Supplement, UNCTAD/GATT, Geneva, Switzerland

D. Distribution

Foreign importers, trading houses, distributors, agents, wholesalers, retailers, buyers, etc.

1) Trade or commercial directories published by the country
2) *World Marketing Directory*, Dun & Bradstreet, Exchange Place, Jersey City, N.J., U.S.A.

Transportation, shipping costs, routes, sea and air shipping costs

1) Freight forwarders – domestic and foreign
2) Shipping companies
3) Airlines

E. Prices

1) Monthly commodity price bulletin, UNCTAD/GATT, Geneva
2) *Commodity Trade & Price Trends*, Annual World Bank, published by John Hopkins University Press, Baltimore, Maryland, U.S.A.
3) *Yearbook of International Trade Statistics*
4) *International Financial Statistics* – International Monetary Fund. Washington, D.C.
5) *Handbook of International Trade & Development Statistics, Supplement*, United Nations

F. Finance and Documentation

Financing of exports, foreign exchange, terms of payment, handling of documents, etc.

1) Export Development Corporation, 151 O'Connor Street, P.O. Box 655, Ottawa Ontario, K1P 5T9

2) Local bankers – domestic and foreign

3) *Trade Fin ncing*, Euromoney Publications Ltd., Nestor House, Playhouse Yard, London, EC4, England

4) *Incoterms* – Canadian Chamber of Commerce handbook, International Chamber of Commerce, 1080 Beaver Hall Hill, Montreal, H2Z 1T2

Other Sources

You may also obtain information and assistance from the International Trade Centres listed in chapter 7 of this book.

The new exporter, especially the small- to medium-sized firm, should avail itself of all secondary sources of marketing information (information previously collected by other parties). Because secondary data are frequently outdated and general in nature, however, the new exporter must eventually seek primary marketing information. This is usually done by a personal visit to the market in question or by the hiring of a qualified consultant. As both these methods can be very expensive, a new exporter with a viable product but without the necessary financial and manpower resources to market it, would be well advised to seek the services of a Canadian trading house. Appendix II of this book has a great deal of information on the services provided by trading houses as well as how to select a trading house and what a trading house expects from a client.

FOREIGN VISIT

If you have decided that your company has the resources to do its own marketing, the next step is to visit the target market or markets. To maximize the benefits of a foreign visit, carefully plan every phase in advance. The Canadian trade commissioner can provide invaluable service in this area. Your product's competitive features, the anticipated export price and promotional literature should be forwarded to the trade commissioner well in advance of the proposed visit.

Give the trade commissioner time to put together properly a list of suggested contacts and agents and distributors. Discuss the suggested contacts with Canadian exporters who are familiar with the market to obtain their views. Contact the Export Development Corporation to see if it has had any previous experience with the potential clients, and request a Dun & Bradstreet report. Once you are satisfied that the contacts are reputable, set up the appointments. Allow plenty of time between appointments and do not hurry to see your customers right after landing in the country. It is important to be well rested and fresh when talking to prospective clients. Travel and hotel reservations should be confirmed before leaving Canada. Determine if you require a visa along with your passport to enter the country. It is wise to take a few extra copies of your photograph for visa purposes in the event you wish to visit a neighbouring country. In addition, take business cards, company letterhead, samples of the products (if feasible), descriptive brochures, pamphlets and photographs of the products and a pocket dictaphone for recording notes as you travel.

THE PLANNING PROCESS

1. Rank countries in order of preference according to your detailed analysis of the top four or five markets.

2. Set marketing objectives to facilitate resource allocation, promote interdepartmental co-operation and measure performance. Develop strategies to obtain the chosen objectives.

3. It is important to put the strategic plan in writing to ensure complete corporate understanding and support. Written strategy also encourages goal-oriented behaviour, can be a reference guide for employees and serves as a means of evaluating strategy and implementation.

The export marketing plan should include the following elements:

1. Management survey

2. Analysis of target market(s)
- buyer
- competition
- channels
- technology
- government

3. Review of company and product

- past performance
- resources – financial, production and human
- organization structure – incentives, authority, responsibility
- domestic marketing program: product, price, promotion, distribution

4. Problems and opportunities in target markets

- strategies for each of these, for example, a company may be more successful in penetrating a market on a joint venture, licensing agreement or equity investment

5. Export market program

- product strategy
- price
- promotion
- distribution
- research

6. Financial implications of exporting

- projected revenues
- projected expenses
- financing needs
- sources of financing

7. Program implementation

- who will do what, when, where
- staff recruiting, training, controlling and compensating

8. Program evaluation

- information flow for ongoing feedback

9. Contingency plans

Chapter 2

EXPORT PRICING

We have set out below a number of pricing strategies, which you can use, depending on your exporting goals.

Flexible pricing. Your firm may use flexible pricing to achieve return on export investment or market shares within a certain time frame. Flexible pricing simply means offering the same product to different customers at varying prices. The price may depend on the customer's bargaining ability, which is largely dependent on competition. Use caution in adopting this policy because customers who pay a higher price could be alienated if they find out what others have paid.

Static pricing. This means offering the same price to all customers. This pricing strategy is simple, convenient and creates customer good will. A rigid one-price policy, however, can be easily matched or undercut by the competition.

Penetration strategy. The penetration strategy involves offering a low price (not below cost) to capture a large share of the market. This strategy is based on the premise that the larger the market, the greater the economies of scale and the more profits that will accrue over time. Once the market share is achieved, however, and the marginal competitors forced out, the price can slowly be increased. The Japanese frequently use this strategy.

Skimming price. This strategy is normally associated with a new product when there is no competition. It attempts to maximize profits on a new product until the inevitable competition appears. Skimming is also used by firms to determine the demand for their product; high prices can always be reduced if the projected sale target is not being achieved. The drawback is that the higher the pricing, the more enticing it is for the competition.

Pricing Methods

1. Domestic Costs Plus Markup

This technique is popular and quite simple. It involves starting with your domestic price, eliminating non-applicable domestic costs, such as promotion, and adding costs associated with exporting, for example: transportation, export packing, insurance, storage, etc. The cost plus method, while simple, has the following major drawbacks: costs are frequently underestimated because they are based on those of past years and may have changed; this method also ignores the competitive conditions of the market place.

2. Full Cost Pricing

This takes into consideration fixed, plus relevant variable costs in price setting. It allows recovery of total costs to which a profit margin is added to set the final price. The drawback to this method is that it assumes fixed costs arbitrarily and does not consider competitive factors in the market place.

3. Marginal Pricing

This pricing technique is frequently referred to as the "German or Japanese method." Marginal pricing is practised when a manufacturer has a well-established domestic market which can defray the fixed costs. In such situations, only the materials and labour costs of the portion produced for export are calculated in the product cost. Under this formula, any price, above the variable costs incurred for the production and marketing of the portion exported, contributes to net profit. This pricing strategy is used for new market penetration with the idea that once the market share has been achieved and marginal competition is knocked out of the market, the price can be increased slowly to generate more profit over time.

HOW TO ASSESS PRICE COMPETITIVENESS

After having assembled all available information on market demand, competitor prices and price trends, you should establish a product price which preserves an acceptable profit margin and is competitive. To determine

if your company can cope with the price, we suggest you work backwards by subtracting the agent's or distributor's commission, inland and ocean transportation charges, marine insurance, financing charges and the insurance premium (if the goods are sold on credit) and administrative and promotional costs. If the remaining amount is greater than your domestic factory price, you can begin exporting immediately. If it is lower, you have the following options:

1. Do not become involved in exporting.
2. Reduce costs by eliminating needless features and incorporating less expensive materials. (Do not try to sell a Cadillac where a Volkswagen will do.) Also attempt to have distributors or agents reduce their commission.
3. Position your product at the upper end of the market by stressing non-price aspects such as an appealing package, a steady source of supply, quicker deliveries continuous innovation and product after-sales servicing.

Export Quotation

An export quotation (*see attached sample worksheet*) can be in the form of a letter or telex showing the price, delivery and payment terms. Quotations can be in the form of a pro forma invoice itemizing the price and details of the shipment.

A quotation is considered contractually binding in international sales. Therefore, use extreme caution in preparing proforma invoices. Provide freight insurance and other integrated costs if the buyer requests them, to allow for the calculation of landed costs.

The quotation should state the payment terms desired, such as irrevocable letter of credit or "sight" draft, and whether charges such a foreign exchange, taxes and air mail are for the buyer's account.

Worksheet

Because an export quotation is legally binding, it is advisable to draft it on a worksheet (see sample below) early on in the export process. This not only allows for revisions and additions, but also serves as a reference guide for future quotations to the same buyer.

Sample

EXPORT WORKSHEET

CEA Hardwares Ltd.

Date: March 31, 1987

Buyer's Name & Address: Hung Sue Co. Ltd., 20 Sing St., Hong Kong
Telephone: 721-3301 **Telex:** 02-57362 **Products:** Paint brushes **Destination:** Hong Kong

1. Cost per unit $*5.00* Quantity *1 000* - total cost		CDN $	5 000.00
2. Profit margin in percentage, over cost (25%)		$	1 250.00
3. Foreign agent's commission			–
4. Export packing		$	75.00
5. Marking cases or cartons		$	8.00
6. Bundling, strapping		$	16.50
7. Special labelling, containers, etc.		$	6.60
8. PRICE F.O.B. (Free on Board) FACTORY:	Total	CDN $	6 356.10
9. **Inland transportation charges**			
Local drayage		$	–
Freight to seaport: carrier *rail*		$	71.60
Unloading charges		$	15.00
Terminal charges		$	15.75
Demurrage, cold storage, etc.		$	–
Wharfage		$	9.00
Miscellaneous charges		$	15.00
10. PRICE F.A.S. (Free Alongside Ship):	Total	CDN $	6 482.45
11. **Ocean transportation and ancilliary charges**			
Loading vessel		$	17.50
Heavy lift charges		$	–
Consular documents		$	10.00
Other documentation charges		$	23.00
Ocean freight		$	250.00
Other charges		$	–
12. PRICE C & F (Cost & Freight):	Total	CDN $	6 782.95
13. **Marine insurance**			
Value shipment $ *6 782.95*			
Add 10% of Value $*678.00*, value insured $ *7 460.95*			
Insurance premium & type *All Risk*		$	80.00
Export credit insurance		$	75.00
14. Finance charge if sold on credit (60 days at 14%)		$	182.94
15. PRICE C.I.F. (Cost, Ins. & Freight):	Total	CDN $	7 120.89
16. PRICE C.I.F. in US Dollars @ 1.20 rate:	Total	US $	5 950.21

Chapter 3

TRADE TERMS

STANDARD TERMS OF SALE

You must address certain questions in every international trade transaction, for example:

- Who is responsible for arranging and paying for the cartage of goods from one point to another?
- Who is liable if the operation cannot be carried out?
- Who assumes the risk of loss associated with goods lost or damaged in transit?

There are many ways of dividing the above risks between the exporter and foreign buyer. This is exactly what trade terms are meant to do. They set out the rights and obligations of each party. The International Chamber of Commerce has standardized a set of rules, commonly referred to as Incoterms, which set out the obligations of buyer and seller. These trade terms have worldwide acceptance and are used in price quotations to minimize misunderstandings. The following are the most common terms:

Ex Works (EXW). The buyer assumes the full cost and risk associated with taking the goods from the seller's premises to the ultimate destination. This term represents minimum obligation for the seller and maximum obligation for the buyer.

Free on Rail and Free on Truck (FOR/FOT). This term simply denotes that the seller's responsibility is limited to loading the goods onto railway wagons. The buyer assumes the remaining responsibility to move the goods to their final destination. The two terms are synonymous since the word "Truck" relates to the railway wagons.

Free Alongside Ship (FAS). The exporter maintains ownership of the goods and responsibility for their handling until they are placed alongside the ship at the port of embarkation. This means that the buyer has to bear all costs and risks of loss or damage to the goods from that moment. The buyer is also required to clear the goods for export.

Free on Board (FOB). The risk of loss or damage is transferred to the buyer when the goods pass the ship's rail. The goods are placed on board a ship by the seller at the port of shipment named in the sales contract.

Cost and Freight (C&F). The buyer must assume the risk of loss or damage when the goods pass the ship's rail at the port of embarkation. The seller is responsible for the costs and freight necessary to get the goods to the destination named in the contract.

Cost, Insurance & Freight (CIF). This is basically the same as C&F with the exception that the seller also assumes the risk of loss or damage to the goods during transit until arrival at final destination stipulated in the contract. This term denotes maximum obligation for the seller.

Ex Quay. The seller is responsible for making the goods available to the buyer on the wharf at the location stipulated in the sales contract. There are two "Ex Quay" contracts in use: "Ex Quay (duty paid)" and "Ex Quay (duties on buyer's account)." The latter means that the liability to clear the goods for import are to be undertaken by the buyer.

Chapter 4

TRANSPORTATION

Transportation is very important in exporting due to the great distance between buyer and seller, especially where the buyer is overseas. Transportation costs can hurt. The potential buyer will compare your product to similar domestic products on the basis of their delivered cost. This means you must control your transportation costs, while ensuring that your merchandise is delivered promptly and in good condition.

When dealing with transportation of goods to foreign markets, there are two things to consider. First, you must select a mode (or modes) of transportation such as ship, rail, road or air keeping in mind:

- the cost of shipping
- transportation time required
- importers' preference
- competitors' prices

Second, you must work out in detail all the major and minor costs involved in transporting to arrive at the price to be quoted on a C.I.F., F.O.B. or some other basis.

MODES OF TRANSPORTATION

Ocean Shipping

Freight is carried by three types of ocean carriers:

- conference carriers,
- the independent shippers, or
- the "tramp" vessels

Most exporters of manufactured products use shipping conference carriers. Conference carriers charge standardized rates, eliminate freight-rate competition among member companies and provide exporters with stability in both price and routes.

Non-conference lines consist of two groups. First, there are independent shippers, which regularly serve the major routes, accepting reservations on a first-come, first-served basis. Their rates are lower than conference shippers. Then, there are the tramp lines, which do not offer regular service. Instead, they offer very low rates to obtain cargo on a return trip. The contract shipper is prohibited from using tramp vessels; a fine or loss of conference membership could result.

The three major types of cargo service are containers, break bulk and bulk commodities, Containers provide door-to-door service in that they can be taken from your company, lifted onto the ship and taken off again at the point of destination. Break bulk refers to the practice of breaking a railcar load or truck load down into small units for ocean shipment. The shipment of commodities in bulk may require the charter on an entire vessel.

Ocean freight rates are rated per weight or measurement ton at the carrier's option. The shipping agent will know how a particular product is charged. Recently, there has been a trend toward a flat rate per container, which greatly simplifies freight cost calculations. You should remember to enquire whether the amount charged per ton refers to short, long or metric ton. A short ton weighs 2 000 lb., a long ton 2 240 lb., and a metric ton 2 204.68 lb.

Air Shipment

Air cargo is steadily increasing, with regular services from most Canadian airports to destinations worldwide. In addition to using scheduled services, exporters can charter an entire aircraft.

Air freight charges are higher than surface or sea transport charges, but this is offset by advantages such as: (a) quick delivery; (b) better, tighter inventory control; (c) reduction in the cost of expensive regional warehousing; and (d) reduction in insurance costs because of reduced exposure to theft and vandalism.

Air freight may be arranged directly with the carrier or through an air freight forwarder, who consolidates shipments from several exporters into larger units which are transported through the airlines. The International Air Transport Association (IATA) publishes air cargo rates for scheduled services on which there is no price competition among IATA members. Rates in the charter market, however, vary considerably with the availability of aircraft and return cargo.

Where ocean carriers have a "weight or measure" rule, the airlines have a "cube" rule. The current cube rule states that shippers are charged a minimum of one pound for every 194 cubic inches of space occupied by the shipment. The shipper must pay for either the dimensional weight or the actual weight, whichever is greater.

Rail Services

Rail is widely used for moving shipments to seaport and to the United States. The two basic rates for rail shipments are carload lots (CL) and less than carload lots (LCL), with the latter offering a higher rate for the same goods. Pool car companies lease rail cars to combine smaller shipments by product type. Pool car rates are less than LCL rates.

Truck Services

Trucks offer quick warehouse-to-warehouse deliveries, including transportation of frozen goods under refrigeration.

Service to the U.S. is provided by general commodity carriers, specific commodity carriers and private carriers. General commodity carriers offer the most comprehensive service. International rates for truckload (TL) and less-than-truckload (LTL) quantities are established through collective action by the carriers in a geographic area.

Specific commodity carriers are licensed to carry certain goods which may require specialized equipment.

Private carrier refers to exporters delivering their goods to the U.S. in their own vehicles.

THE FREIGHT FORWARDER

Exporters, particularly new exporters, will find the service of ocean freight or air freight forwarders very helpful. Their services include the following:

- arranging with the shipper and/or packing and marking of goods;
- arranging appropriate carriers for transportation of goods;
- consolidating shipments from different suppliers;
- handling customs clearance;
- handling insurance coverage;
- preparing documents;
- preparing banking and collection papers; and
- booking steamer space.

If you are exporting to the United States, a U.S. Customs broker can assist you. A list of international freight forwarders, air freight specialists and U.S. customs brokers can be found in *McGoldrick's Canadian Customs and Excise Tariff.*

EXPORT PACKING

Packing goods in a proper manner is essential. The goods must be protected from physical, chemical and moisture damage as well as pilferage. Packing considerations also include government regulations, cost and weight.

Export packing should be done by professionals if the exporter has inadequate experience in packing. The exporter must consider a number of factors, such as:

- Nature of goods. Are they easily damaged during handling, in transit or in storage? Do they need temperature control or special protection?
- Types of carriers. On what type of transport will they be shipped to their destination?
- If transported by ship, will they be above deck or below deck?
- What weather conditions are the carriers likely to encounter in transit?
- Are the goods destined for countries with poor port facilities or where cargoes are handled roughly?
- Are the goods packed against pilferage during transit?

- Is strapping of containers necessary?
- What markings or labels are necessary on the outer package? What international symbols are needed?

OUTSIDE MARKINGS

Marking of containers serves a very important purpose: identification of your goods from other shippers' consignments. The marks shown on containers must agree with those on the commercial invoice, bill of lading, etc.

The following markings are required:

- buyer's name in short and/or a symbol assigned by you;
- point of entry via port of entry;
- gross and net weights in kilograms and pounds;
- country of origin – MADE IN CANADA;
- package numbers – whenever there is more than one case, the numbers should be sequential;
- outside measurements of cases – length, width and height, both in metric and imperial measurements;
- cautionary markings, if needed, with international symbols; and
- packing list, plus one copy in each case, itemizing its contents.

TRANSPORTATION INSURANCE

Marine insurance protects both ocean and air cargo as well as connecting land transportation. It is essential in exporting for the following reasons:

- Carriers assume very little liability and you could be liable for more than your own shipment in an ocean disaster (the principle of "general average" will be explained).
- Door-to-door coverage is needed when using several modes of transportation.
- Terms of sale may render the seller responsible for insurance.

You may arrange for an open or floating policy to cover all shipments, or you may request a specific policy for each shipment. The open policy offers the convenience of a supply of certificates which you can complete as needed.

The main types of coverage available are the following: free of particular average (F.P.A.); with average (W.A.); and all risk. All three types insure against sinking, burning or stranding.

Free of Particular Average (FPA). This is the narrowest form of coverage. In addition to total losses, partial losses resulting from perils of the sea are recoverable, but only if the vessel has been stranded, sunk, burnt or in a collision.

With Average (WA). This offers more inclusive protection for partial damage by sea perils, if such damage amounts to 3 per cent or other percentage specified of the value of the shipment. If the vessel has been stranded, sunk burned or has collided with another vessel, losses are recoverable in full.

All Risk. This is the most comprehensive. The all risk policy protects against physical loss or damage from external causes. It does not include war, strikes, riots, seizure and detention, unless endorsed by a clause or separate policy.

You must realize that a marine insurance policy differs from home insurance in that it assumes the transaction is for profit. The profit as well as the production, shipping and selling costs must be considered. Hence, it is normal to insure all shipments at 110 per cent of their C.I.F. value.

You must also be aware of the principles of particular average and general average. A particular average loss affects specific interests only. A general average loss affects all cargo on board as well as the vessel.

Particular average losses may be a total loss of part of the goods and the arrival of the goods in damaged condition. If the total invoice value of the shipment was $2 000 and 10 per cent of it was lost, the insured value under the 110 per cent rule would be $220. If the goods were damaged rather than lost, the underwriter would pay a percentage related to the net amount lost by selling below normal wholesale prices.

General average losses may occur when part of the cargo must be thrown overboard to save the vessel. In this situation, all shippers will share in the loss incurred in proportion to the value of their shipment.

Be aware of the importance of insurance and documentation in exporting. You must evaluate the various modes of transportation carefully in order to choose the right type. A competent freight forwarder can be extremely helpful in making these decisions.

DOCUMENTATION

A number of documents are required for exporting a consignment to overseas destinations.

You must take great care to ensure that the details are consistent in all documentation relative to the export. For example, if there is a discrepancy between the invoice and the Letter of Credit, it could create severe difficulties in receiving the payment.

Bill of Lading. This is issued by the ocean carrier as evidence of a contract for transporting the goods and receipt. It is also a document of title to the goods. Signed copies of the B/L are proof of ownership of goods. If a B/L is "straight" the goods are shipped directly to the buyer who can take possession of the goods; it is not negotiable.

Airway Bill. An airway bill is a non-negotiable instrument and, like a bill of lading, it is both a receipt for the goods and a contract of carriage. The airway bill and the title to the goods automatically go to the consignee who can take possession of the goods when they arrive.

Pro Forma Invoice. This is a delivered cost estimate, which is essential to a successful sale.

Commercial Invoice. This is used by exporters to charge the goods sold to the buyer. Exporters may use their own invoice forms, but the contents must comply with the requirements of the importing country. Normally the commercial invoice shows:

- date of issue;
- name and address of buyer and seller;
- contract number;
- description of goods, unit price, total weight of goods, number of packages;
- shipping marks and shipping numbers; and
- terms of delivery and payment.

Consular Invoice. Some countries, particularly in Latin America, require this document. Forms are usually available from the Consul and upon completion must be resubmitted for legalization.

Certificate of Origin. The purpose of this document is to establish where the goods were manufactured and also to determine the right of the goods to preferential or conventional duties. Certificates of origin are thus required for many parts of the Commonwealth. The origin of the goods may be certified by the local Chamber of Commerce or Board of Trade.

Certificate of Value. Values shown in an invoice frequently have to be confirmed by a certificate signed by an exporter stating that the invoice contains a true and full statement of the price paid for the goods. It is simply a declaration by the exporter.

Certificate of Inspection. For certain types of goods a certificate of inspection is necessary.

Health or Phyto-Sanitary Certificates. The regulations of many countries call for a certificate of health or sanitary certificate when animals, animal products (including fish), plants or other agricultural products are shipped.

Packing List. This is sometimes required to supplement the commercial invoice when many units of the same product are being shipped or when the quantities, weights or contents of packing cases may vary.

Import Licence. Many countries require th importer to obtain an import licence. You should always make sure that your custome has complied with the licencing requirement of the importing country before you ship the goods. The import licence number is usually shown on all the documents, otherwise you may not be paid in the currency of the sale.

Export Declaration Form B13. This is required when shipments are in excess of $500 in value or when an export permit is required for exporting.

Chapter 5

FINANCING

When negotiating a sales contract, it is important to weigh the risks inherent in the method of payment sought by the importer. Importers naturally ask for the terms most favourable to them and prefer a method of payment whereby their bank credit line is least affected. You, the exporter, want the least risk in collecting your money and want to obtain payment as quickly as possible, since your firm's cash flow depends on it. Hence, there is a conflict over financing, which must be resolved tactfully during negotiation of the contract.

First, it is of prime importance that there be a contract between buyer and seller. Depending on the particular circumstances, the custom in any particular set of circumstances and the custom in any particular trade, this contract may or may not be a very formal one. More commonly, the contract is executed by the submission of a pro forma invoice by the seller and its acceptance by the buyer.

Whatever format the contract takes, it should contain sufficient data to avoid misunderstanding or dispute regarding quantity, quality, size, colour or other characteristics of the goods. It should also state the unit price, relative trade term applicable, time of shipment and term or method of payment. The importance of this contract cannot be exaggerated. The seller has no legal recourse without it.

Export transactions are documented to assure the seller of payment and the buyer of the merchandise. The documentation provides:

1. protection from non-performance by either side;
2. transaction financing; and
3. protection from foreign exchange risk.

1. Protection from Non-Performance

Because the buyer and seller likely have limited knowledge about each other, there will necessarily be concerns over performance.

The risk of non-preformance can be largely reduced by the use of three key documents: the bill of lading, the draft and the letter of credit. The bill of lading is a receipt from the carrier of the goods, being both a contract to transport the goods and a document of title. The draft is an order written by an exporter requesting an importer to pay a specified amount at a stipulated time. The letter of credit is an instrument, issued by an importer's bank, in which the bank promises to pay the exporter on presentation of the documents specified in the letter of credit. Drafts and letters of credit are examined in more detail in the next chapter.

2. Transaction Financing

The time between order placement and payment is longer for exporting than for domestic marketing. Cost escalation, risk of non-performance and exchange rate fluctuations can all add to the cost of exporting. For these reasons, the role of banks in financing export sales is even more crucial than in domestic sales. The bill of lading, drafts and letters of credit allow the banks to engage in financing export transactions by working with the documents rather than with the goods.

3. Protection from Exchange Rate Fluctuation

If payment is in the importer's currency, the exporter can lose greatly through fluctuations in the value of that currency. Similarly, if the exporter's currency is used, the importer stands to lose. To avoid the risk, parties involved in international trade will often "hedge" or "cover" their exposed position in the foreign exchange market.

In hedging, the exporter who is expecting future payment in a foreign currency can arrange for payment at a specified future date with the current rate. This covers the exporter's open position with foreign currency and eliminates the risk of loss due to currency fluctuations. Documents detailing the transaction and date of payment are needed for this operation.

SOURCES OF EXPORT FINANCING

Banks

The banks have always been engaged in foreign trade financing. The International Section of the banks will provide two essential functions for exporters – lending of money and the collection of money.

1. Lending of Money. The lending function has both Buyer and Seller Credit.

Buyer Credit. Funds can be loaned directly to a foreign buyer. Not only must that buyer be judged credit worthy, but the country in question must be considered stable, politically and economically. A guarantee may be requested from the buyer's government or national bank.

Supplier Credit. Loans can be arranged with banks through the co-operation of the Export Development Corporation's insurance facility. The EDC facility provides coverage for the bank in the event of non-payment. This gives the bank additional security when purchasing the promissory notes issued by the importer. The notes are purchased either at face value or at a discount, depending upon the collateral available. This provides the exporter with quick cash.

Short term (180 days) buyer credits can be arranged for foreign buyers without affecting the exporter's available line of credit. Medium term (up to five years) buyer credits can be arranged to finance capital goods, where the exporter alone cannot support such receivables.

2. Confirming Houses, Export Finance Houses and Factors Confirming houses, as well as banks, play an important role in the financing of exports. They are companies which, acting as agents for overseas buyers, place and confirm orders with exporters. They guarantee payment to the exporter and may often arrange credit for the buyer. Thus, the exporter runs no credit risk. Credit terms are usually short, up to 180 days, and are invariably covered by bills drawn on the buyer, which reflect not only the cost of the goods but also the cost of the finance.

Export financing houses will purchase the exporter's foreign receivables on a non-recourse basis upon presentation of proper shipping documentation. They organize all export arrangements and documentation and will provide front-end financing to the overseas buyer. Charges vary, but the cost of financing will take account of all expenses. Many export finance houses are owned by banks.

Factoring is a financial service popular in many parts of the world, but is still not common in Canada. Some Canadian banks now have factoring companies as subsidiaries. Factoring involves the outright sale of accounts receivable. A factoring company purchases an exporter's accounts receivable with immediate payment. The advantage to you, the exporter, is that you do not have to wait for your money to arrive at the bank from the importer. Once the factoring company buys the accounts receivable, it assumes most or all of the risk of non-payment by the importer. The factoring company will investigate the credit worthiness of each importer before agreeing to purchase the receivable.

For its services, the factor charges 2.5 per cent, or more, of the invoice value of the export, which is higher than the cost of collecting through a bank. The exporter's costs, however, are reduced because the need to buy commercial and political risk insurance is eliminated.

Government Assistance

Export Development Corporation

The Export Development Corporation (EDC) provides Canadian exporters with competitive financing as well as a wide range of insurance and guarantee services including:

- supplier credits, both short and medium term, providing protection to exporters from non-payment by foreign buyers;
- buyer credits, providing direct loans to foreign buyers for the purchase of Canadian projects, goods and services; and
- surety insurance, providing protection on bid and performance bonds as well as guarantees.

The EDC's global insurance is a one-year renewable policy covering export sales with credit terms up to 180 days. Coverage is for up to 90 per cent of loss due to non-payment by foreign buyers for commercial and/or political risk.

Commercial risk includes buyer insolvency, default and refusal to accept goods (for other than a reason of commercial dispute). Political risk covers blockage or transfer of funds from abroad, war or revolution, import/export permit cancellation and, in some cases, termination of contract. Global insurance assists the exporter in three ways. It provides protection against non-payment of receivables, frees up working capital and allows for more attractive competitive payment terms which can increase sales.

For medium terms (one to five years), the EDC offers specific transaction insurance. It covers capital goods and services for basically the same risks as above. This insurance, coupled with a Specific Transaction Guarantee, can be used to finance (with bank assistance) the sales of capital goods on one- to five-year terms.

The EDC offers long-term (over five years) fixed rate financing in the form of buyer credit direct loans and lines of credit. The EDC, in effect, provides the exporter with cash sales.

Where possible, loans are offered jointly with the commercial banks. The EDC will provide financing where the term of the loan is beyond commercially acceptable terms to the banks. The banks will provide down payment and local cost financing.

Lines of credit with public agencies and private banks in many countries provide the exporter with a cash sale. The EDC lends to the foreign bank or public agency which, in turn, lends the money to the foreign buyer.

The EDC also provides note purchase (or forfaiting), a technique for arranging medium-term export financing. The EDC, in its own right, can purchase trade obligations, usually on one to five years. The exporter receives immediate cash by discounting promissory notes on a non-recourse basis.

The EDC also delivers surety insurance which provides bid and performance bonds, surety insurance and guarantees to Canadian exporters.

Performance bonds are used when the buyer is uncertain of the seller's ability to deliver as contracted. The seller is required to put up a percentage of the contract as a show of good faith. If the seller fails to meet the terms of the contract, the importer can draw on these deposits. This coverage is referred to as Performance Security Insurance (P.S.I.).

Chapter 6

CREDIT AND COLLECTIONS FOR EXPORTS

Credit

You can, and should, use export credit as a marketing tool. You will need to choose payment terms which satisfy importers while protecting your own interests. It is essential to realize that buyer and seller are operating under very different conditions and have different objectives. The exporter wants to be paid as soon as possible in the correct currency, while the importer wants to receive the materials ordered on time and be extended the maximum possible credit terms.

Evaluation

You must be sure of the creditworthiness of the individual buyer and of the buyer's country. The evaluation of country risk is a basic step in the development of credit policy. Here are items about the country that you need to know. This information is sometimes difficult to acquire, and we suggest you approach your bank or the Export Development Corporation for assistance.

1. Economy

- Gross Domestic Product and per capita income
- balance of payments
- international indebtedness
- currency convertibility
- exchange controls
- inflation rate
- unemployment
- trade agreements, including current trade with Canada
- trade restrictions – import quotas and tariffs
- customs rates, preferential treatment
- level of industrial development
- population size, distribution
- skill and wage level of work force
- income distribution
- labelling and packaging requirements

2. Political and Legal Factors

- Form of government, stability
- attitude towards foreign business, especially Canadian
- international credit record
- fiscal and monetary policies
- tax laws and equity in their administration
- fairness of courts, collectibility of debts

A detailed assessment of the country along these lines will indicate how stable a market it is.

The next step is to evaluate your buyer's credit standing: major considerations are length of time in business, the size of operations and amount of importing, financial strength, credit rating and ability to pay.

There are numerous ways to find this information:

- The major banks, through their overseas branches and correspondents, can usually obtain information on any publicly owned company.
- The Trade Commissioner Service can tell you if the buyer is known to other Canadian companies and may put you in contact with local suppliers.
- You may directly contact exporters who have done business with your importer. Their comments are a good indicator of the buyer's overall reliability.
- Dun & Bradstreet International will investigate a foreign firm and submit a credit report. There is a charge for Dun & Bradstreet reports, however, and they are only as reliable as the information they can assemble from foreign sources.
- The U.S. Department of Commerce publishes the *World Traders' Data Report* with information on foreign firms, covering their size, operations, background, bank references, etc.

- With this information, you can evaluate the creditworthiness of a prospective customer and decide which terms of payment to offer.

METHODS OF PAYMENT AND THEIR CREDIT SIGNIFICANCE

In order of increasing risk, the methods of payment you can request are:

1. cash in advance
2. letters of credit
3. bills of exchange
4. open account
5. consignment

1. Cash in Advance

Although this is risk free and ideal for an exporter, an importer is seldom prepared to pay cash in advance. Exceptions are found where there is a shortage of merchandise or the importer must finance the exporter to manufacture the goods.

2. Letter of Credit (Documentary Credit)

This is an engagement in writing by a bank on behalf of a customer (the applicant) addressed to a person (the beneficiary) undertaking that drafts by the beneficiary, up to a total of the stated amount on the "issuing bank" or other named bank, will be honoured provided they are accompanied by specific documents usually relative to the shipment of specified goods. The letter of credit protects both the buyer and the seller. In exporting, where credit information may be unreliable, a seller is concerned about receiving payment and a buyer about receiving the proper goods. The letter of credit is a guarantee that the importer's bank will make the required payments provided the seller has fulfilled the obligations in the letter of credit. The procedure for a letter of credit (L/C) is as follows:

- The exporter and foreign buyer agree on a contract with payment by Letter of Credit.
- The issuing bank is instructed by the foreign buyer to provide credit in favour of the exporter.
- The issuing bank asks the exporter's bank to advise and/or confirm credit.
- The exporter's bank sends the letter of credit to the exporter.
- The exporter dispatches the goods to the foreign buyer.
- The exporter presents the shipping documents to its own bank.
- The exporter's bank checks, pays and /or accepts under the terms of credit.
- The bank then forwards these documents to the issuing bank.
- The issuing bank checks the documents and reimburses the exporter's bank.
- The foreign buyer is debited by the issuing bank in the pre-agreed manner.
- The issuing bank then releases the documents to the foreign buyer.
- The foreign buyer uses the documents to receive delivery of the goods.

There are several types of letters of credit and you should be aware of the differences between them. A letter of credit may be "revocable" or "irrevocable." An irrevocable letter of credit obliges the issuing bank to honour drafts complying with the letter of credit and can neither be cancelled nor modified without the consent of *all* parties, including you, the exporter. A revocable letter of credit can be cancelled or amended at any time and is no guarantee of payment. You should insist on an irrevocable letter of credit. Another distinction between letters of credit is "confirmed" versus "unconfirmed." A letter of credit issued by a foreign bank can be confirmed by the Canadian bank, thereby guaranteeing payment. When you are uncertain about the foreign bank or its government, you should insist upon a confirmed, irrevocable letter of credit.

The advantages of the letter of credit over other payment terms are numerous. You have the promise of a bank rather than that of a business, which could go bankrupt. Banks tend to be more reliable and stable than other businesses. The letter of credit also ensures the availability of foreign exchange in countries with currency restrictions. The letter of credit, as a legal document, must be honoured, whereas trade obligations such as drafts may receive lower priority in foreign exchange allocation.

The main disadvantage of the letter of credit is its cost to the buyer. It can be an expensive process because of bank fees and, sometimes, government requirements for a large up-front deposit.

3. Bills of Exchange

Bills of exchange, or drafts, represent a lower level of security, even though they do provide tangible evidence of an obligation. A bill of exchange is an unconditional order in writing, addressed and signed by the exporter. It requires the importer, to whom it is addressed, to pay on demand, or at a fixed or determinable future time, a specified amount of money to, or to the order of, a specified person. What usually occurs is that the draft will require the importer to pay the specified amount to the exporter or to the exporter's order. In commonly used terms, the exporter becomes the "drawer," the importer becomes the "drawee," and the exporter is the "payee."

The time when these drafts will have to be honoured depends upon the credit terms agreed to between the exporter and the importer. In most cases, the exporter will want payment as soon as the draft is presented to the importer and will order payment to be made "at sight."

If, however, you have agreed to give the buyer a specific time to pay, you may order payment to be made "at thirty days after sight," or "ninety days after sight," or "sixty days after date" (which refers to the date of the draft).

The drawee accepts a time draft by writing "accepted" on it, thereby making it a legal obligation.

Drafts may be either "clean," without shipping documents, or "documentary," accompanied by the shipping documents which confer ownership.

The use of clean drafts, whereby shipping documents are sent directly to the buyer, is generally restricted to inter-company transfers. The exporter will normally use documentary drafts.

The procedure in using drafts is as follows:

- The exporting company ships the goods and presents the shipping documents to its bank with instructions to release them only on payment/acceptance (for sight or time drafts respectively) by the buyer.
- The exporter's bank then forwards the documents to the importer's bank with these same instructions.
- The importer's bank notifies the buyer who will pay or accept the draft as required.
- In the case of a sight draft, the foreign bank remits the importer's payment to the exporter's bank (less service changes) from where the funds are transferred to the exporter's account (less service charges).
- Where a time draft is used, the foreign bank holds the bill to maturity and then forwards the proceeds. It may also discount the draft or take it as collateral in order to grant the exporter earlier payment.

4. Open Account

Open account sales are the simplest form of export finance. The seller ships the goods along with the title documents and relies on the buyer to pay the agreed prices at the agreed time. Before shipping on open account terms, you must have absolute confidence in the financial ability and willingness of the buyer to pay according to the terms of the contract. There is no tangible payment obligation or definite maturity date.

Shipping on open account, although risky, is probably the most common payment form with Canadian exporters. This is because the bulk of our trade is with the United States, and exporters can easily check out potential customers in that country.

5. Consignment

In this arrangement the seller retains ownership until the goods are sold. While this is very convenient for the buyer, the seller carries the entire financial burden and risk. These risks centre on:

- the difficulty of keeping track of physically distant merchandise;
- unclear laws regarding ownership in these circumstances; and
- delayed payment hampered by exchange controls.

CREDIT MANAGEMENT

The choice of payment terms is important both in terms of credit risk and sales promotion. Today's competitive international business climate places a premium on a company's use of credit. If the company is too liberal with credit, it will lose money. If it is not forthcoming with credit, it will lose customers. This is because the company's competitors from other countries will, in many cases, be willing to extend credit. The Canadian company must have a balanced credit policy to be successful.

You must consider a number of factors when deciding on payment terms. These considerations include:

- the value of the sale in absolute and relative terms (as a percentage of total sales);
- the buyer's credit standing and relationship with the seller;
- market custom and intensity of competition;
- competitor policies;
- amount of money involved;
- availability of foreign exchange and presence of exchange controls in the buyer's country;
- political and economic stability in the buyer's country;
- type of merchandise and its availability from other sources; and
- availability of credit insurance.

You must weigh the above factors carefully, realizing that there is a trade-off between excessive caution and legitimate risk. Harder payment terms offer you more protection, but may alienate potential buyers.

Once your firm has decided to extend credit to its customers, it must decide on a credit policy. This policy will include payment terms, credit ceilings and time period as well as credit insurance. Finally, your firm must establish a collection policy.

EXPORT COLLECTIONS

The most important part of any business deal is getting paid. Exporting is no exception to this rule.

You should take certain precautions to avoid collection problems. The first is a thorough credit check of the buyer. The second is the sales contract; you must ensure that the goods shipped are exactly as described. You must take care in following the importer's instructions regarding documentation. The exporter's failure to pack, mark or ship as instructed are common reasons for importers to refuse payment.

If you do not receive payment, you must determine the reason. The goods may have been defective or they may have been incorrectly documented. In this case, prompt adjustment should be made.

If the importer is clearly at fault, you have certain avenues of recourse. The first step would be to collect through persuasion – the foreign bank and/or collection agency are the most likely allies in pressing your claim.

If this does not bring results, you should protest the draft. This is the legal process of registering the debt. The action establishes your claim on an importer who is unwilling or unable to pay. The buyer may have refused to pay a sight draft or accept a time draft, or may have failed to honour a time draft at maturity. In any one of these cases, protest is advisable. Your bank will arrange it for you on request.

The protest documents are prepared by a notary in the buyer's city. The notary presents them to the buyer, demanding payment. If the buyer still fails to pay, your legal rights against the buyer have been established and will be recognized by the courts. This is a valuable first step towards enforcing payment by the courts.

If protesting the draft does not bring results, arbitration may be employed. Countries which trade heavily tend to have standard arbitration procedures. The exporter can obtain information on arbitration from the Canadian Council of the International Chamber of Commerce.

Chapter 7

EXPORT SUPPORT FACILITIES

Canada's federal and provincial governments have numerous export assistance programs for Canadian companies that want to begin selling in foreign markets. There is no shortage of such programs; the real difficulty lies in knowing what each of them is and how to reach them.

The main government organizations involved in the delivery of export-related and financing services are:

External Affairs and International Trade Canada (EAITC)
Trade Commissioners Abroad
International Trade Centres
Industry, Science and Technology Canada (ISTC)
Export Development Corporation
Canadian Commercial Corporation
Canadian International Development Agency
Centres for International Business Studies

EXTERNAL AFFAIRS AND INTERNATIONAL TRADE CANADA

External Affairs and International Trade Canada has geographic divisions for every region of the world. Resources are devoted to trade development and economic and trade relations.

The geographic divisions promote and assist companies develop specific capital projects. They manage export promotion activities and co-ordinate the export interests of other federal departments and agencies with those of provincial governments and private companies.

The geographic divisions carry out many specific activities such as organizing trade fairs, serving as liaison with financial institutions and making contacts for businesses. They keep abreast of anything that affects trade, from formal agreements on tariffs and duties to informal agreements on technical specifications and product inspections. These divisions (Africa and Middle East, Asia and Pacific, Europe, Latin America and Caribbean and the United States) also provide up-to-date information on political affairs that might have an effect on Canada's trading relationships.

Various bureaus within the International Trade Development Branch of External Affairs and International Trade Canada are focal points for industrial export activities and provide information about major projects abroad. The department offers many program activities of interest to exporters.

Program for Export Market Development (PEMD)

PEMD offers assistance to Canadian businesses to participate in or undertake various types of export promotion activities. PEMD covers projects initiated by both industry and government and is designed to assist companies regardless of size.

The delivery of PEMD is handled by the International Trade Centres as well as headquarters' branches of ISTC and EAITC. (A handbook is available to Canadian exporters.) They also monitor the success of the exporter in capturing new markets. The Export Programs Division of External Affairs and International Trade Canada has responsibility for administering the PEMD program. Sections of the program involve both government-initiated and industry-initiated activities.

1. Government-Initiated Activities.

These are government organized activities, with businesses being invited to participate. The two types are trade missions and government-initiated trade fairs.

Trade Missions. PEMD assistance covers both trade missions abroad and foreign business and government officials' trips to Canada or to another approved location.

Government-Initiated Trade Fairs. These are usually limited to a specific industrial sector or type of product. The selection is determined by the expected demand for a product in a specific market.

2. Industry-Initiated Activities

The second component of PEMD comprises financial assistance for export marketing activities that are initiated by industry. This type of assistance is repayable if sales are generated. The types of activities are:

- Participation in recognized trade fairs outside Canada.
- Visits outside Canada to identify markets, and visits of foreign buyers to Canada or to another approved location.
- Project bidding, or proposal preparation, at the pre-contractual stage, for specific projects outside Canada involving international competition and formal bidding procedures. It covers the supply of Canadian goods and services for major capital projects including consulting services, engineering, construction and equipment.
- The establishment of export consortia for companies that would be better able to exploit export opportunities by pooling their resources and sharing costs and risk with other companies.
- The establishment of permanent sales offices abroad (excluding the U.S.) in order to undertake sustained marketing efforts outside Canada.
- Special activities for non-profit food, agriculture, and fish organizations, marketing boards and agencies (for the benefit of their members). Activities include participation in trade fairs, visits, technical trials, product demonstrations, seminars and training, and commodity promotion.

For more information, call Export Programs Division at (613) 996-8708.

Canada-U.S. Defence Production Sharing Arrangement

This arrangement gives Canadian manufacturers the opportunity to provide defence supplies and services to the U.S. military in competition with American industry. Under this program, Canadian firms can compete effectively because, in most cases, the U.S. government has waived customs duties and its Buy America Act. The program aims to improve market access for Canadian businesses, but does not provide financial assistance. Call (613) 996-8050 for information.

Canada-U.S. Defence Development Sharing Program

This program, a companion to the previous one, does offer financial assistance. For approved projects, Canadian companies are reimbursed 100 per cent of their costs for the research and development phase of U.S. military projects. Funds are provided by the participating U.S. Department of Defense agency and up to 50 per cent by the Canadian government through the Defence Industry Productivity Program (DIPP). Call (613) 996-3518 for details.

Grains and Oilseeds Program

This program offers information, direction and assistance to individuals and firms concerned with market development, marketing, handling and processing of grains, oilseeds and their products. Assistance includes the provision of government guaranteed credit on export sales and a market development program which includes the conduct of trade missions and dissemination of information on marketing opportunities. Call (613) 995-8767 for information.

Export Financing

The department participates actively in both policy formulation and operational aspects associated with the Export Development Corporation, the Canadian International Development Agency, the Canadian Commercial Corporation and the international financing institutions. The role of financing in the promotion of Canadian exports is vital for today's markets. Call (613) 996-2939 for details.

Export Permits and Controls

The department makes exporters aware of the requirements of the Export and Import Permits Act and reviews and approves, or denies, export permit applications. It also establishes policy relating to the control of exports from Canada for national security, foreign policy or supply reasons. For further

information telephone the Export Controls Division at (613) 996-2387.

WIN Exports

The World Information Network for Exports (WIN Exports) Division operates a microcomputer-based information system designed to assist the more than 400 trade development officers located in federal offices around the world to respond more quickly to the opportunities they have identified in their territories.

Through WIN Exports, trade development officers are better able to match Canadian export capabilities to sales opportunities in their post territories, make appropriate contacts on behalf of Canadian companies and report back to them with the kind of advice they require to reach informed decisions. Companies may contact the division directly (613-996-7290) in order to list their companies capabilities, experience and interests. The WIN Exports Division will serve as the primary sourcing instrument for Canadian trade development officers abroad. Additionally, companies may have their capabilities listed in WIN Exports by registering with the Business Opportunities Sourcing System (BOSS) operated by Industry, Science and Technology Canada through its regional offices. Registration in WIN Exports or BOSS is required for access to PEMD Funding.

Technology Development

The department works to promote the export of Canadian high tech products. The high tech industry is made up of many elements, but there is one common denominator – all must export or perish. For assistance in this area call (613) 992-1893.

The Technology Inflow Program promotes the acquisition of foreign technological innovation needed to develop new or improved Canadian products, processes, or services. It does this by making use of Canadian government offices abroad to locate and facilitate linkages with foreign sources of technology and by providing financial support to help Canadian organizations acquire foreign technologies relevant to their needs. Call (613) 992-8054 for details.

Trade Commissioner Services Abroad

The department maintains a worldwide network of trade commissioners to assist companies seeking export markets, with over 400 officers in more than 90 Canadian embassies, high commissions and consulates.

The trade commissioners monitor the host country's economic, political and social trends for their impact on trade relations with Canada. The trade commissioners can assist exporters in several ways:

- Identify firms suitable as agents and place Canadian suppliers in direct contact with these firms; provide credit and other information on potential business partners in foreign countries.
- Provide information to exporters on a country's trade, business and financial condition, on methods of doing business and on appropriate distribution channels for particular products.
- Suggest appropriate trade shows to launch Canadian products and indicate press and other media contacts.
- Advise and assist Canadian companies seeking foreign joint venture and licencing opportunities.

While trade commissioners can be invaluable assistants to Canadian exporters, there is a limit to the services they can provide. They will not sell a product or act as sales agents, debt collectors or travel agents. They will recommend others who can perform these functions.

Info Export

Info Export is an instant guide to all the export programs and services of the federal government. It provides contact with External Affairs and International Trade Canada's trade-information network for general information and advice on the best potential markets. It can also be used to direct companies to provincial governments and the International Trade Centres. A broad selection of export trade literature is available. The toll-free hotline number is 1-800-267-8376.

International Trade Centres

International Trade Centres are located across Canada to provide a full range of trade services for Canadian exporters. They are staffed by experienced trade commissioners under the direction of a senior trade commissioner from External Affairs and International Trade Canada.

Services such as export counselling and the provision of market opportunity information are combined with the ability to assist in the development of individual marketing plans. The centres also act as focal points for export awareness programs such as seminars and workshops. In addition, each centre will be linked with the WIN Exports system described above.

The centres are located in regional offices of Industry, Science and Technology Canada and are often the first point of contact for potential exporters. Future centres are to be located in London and Quebec City.

Newfoundland and Labrador
International Trade Centre
Parsons Building, 90 O'Leary Avenue
P.O. Box 8950
St. John's, Newfoundland
A1B 3R9
Telephone: (709) 772-5511
Telex: 016-4749
Fax: (709) 772-2373

Prince Edward Island
International Trade Centre
Confederation Court Mall
Suite 400
134 Kent Street
P.O. Box 1115
Charlottetown, Prince Edward Island
C1A 7M8
Telephone: (902) 566-7400/7443
Telex: 014-44129
Fax: (902) 566-7450

Nova Scotia
International Trade Centre
Central Guaranty Trust Building
1801 Hollis Street
P.O. Box 940
Station M
Halifax, Nova Scotia
B3J 2V9
Telephone: (902) 426-6125
Telex: 019-22525
Fax: (902) 426-2624

New Brunswick
International Trade Centre
Assumption Place
770 Main Street
P.O. Box 1210
Moncton, New Brunswick
E1C 8P9
Telephone: (506) 851-6444
Telex: 014-2200
Fax: (506) 851-6429

Québec
International Trade Centre
Tour de la Bourse
800, Place Victoria, Suite 3800
C.P. 247
Montréal, Québec
H4Z 1E8
Telephone: (514) 283-6796
Telex: 055-60768
Fax: (514) 283-3302

Ontario
International Trade Centre
Dominion Public Building
1 Front Street West
Toronto, Ontario
M5J 1A4
Telephone: (416) 973-5053
Telex: 065-24378
Fax: (416) 973-8161

Manitoba
International Trade Centre
8th Floor, 330 Portage Avenue
P.O. Box 981
Winnipeg, Manitoba
R3C 2V2
Telephone: (204) 983-4099
Telex: 07-57624
Fax: (204) 983-2187

Saskatchewan
International Trade Centre
6th Floor
105-21st Street East
Saskatoon, Saskatchewan
S7K 0B3
Telephone: (306) 975-5318/4343
Telex: 074-2742
Fax: (306) 975-5334

International Trade Centre
4th Floor
1955 Smith Street
Regina, Saskatchewan
S4P 2N8
Telephone: (306) 780-6108
Fax: (306) 780-6679

Alberta
International Trade Centre
Canada Place, Suite 540
9700 Jasper Avenue
Edmonton, Alberta
T5J 4C3
Telephone: (403) 495-4415
Telex: 037-2762
Fax: (403) 495-4507

International Trade Centre
11th Floor
510-5th Street S.W.
Calgary, Alberta
T2P 3S2
Telephone: (403) 292-6660
Fax: (403) 292-4578

British Columbia
International Trade Centre
Vancouver Centre
Scotia Tower, Suite 900
650 West Georgia Street
P.O. Box 11610
Vancouver, British Columbia
V6B 5H8
Telephone: (604) 666-1438
Telex: 04-51191
Fax: (604) 666-8330

INDUSTRY, SCIENCE AND TECHNOLOGY CANADA

Industry, Science and Technology Canada (ISTC) has industry marketing branches located in Ottawa and regional offices throughout the country. In addition to regional offices co-located at the same addresses as the International Trade Centres noted above, the department has offices in the Northwest Territories and the Yukon.

Northwest Territories
Industry, Science and Technology Canada
Precambrian Building
P.O. Box 6100
Yellowknife, Northwest Territories
X1A 2R3
Telephone: (403) 920-8568
Fax: (403) 873-6228

Yukon
Industry, Science and Technology Canada
Suite 301
108 Lambert Street
Whitehorse, Yukon
Y1A 1Z2
Telephone: (403) 668-4655
Fax: (403) 668-5003

ISTC industry marketing branches are located in Ottawa. These marketing branches counsel and assist industry in the manufacturing, processing, tourism and selected service sectors to pursue international export marketing opportunities. They have information on Canadian industry including products and services, areas of interest and capabilities.

Marketing branches are a point of contact for incoming nationwide sourcing enquiries. They, in turn, notify industry of identified opportunities and also trace potential Canadian sources through contact with regional offices, trade associations or domestic users.

The ISTC marketing branches assist Canadian firms interested in participating with foreign companies in various activities such as technology exchanges or cross licencing, reciprocal marketing arrangements, joint ventures, joint research and development projects and licencing of technology.

Marketing branches also process and appraise applications for Defence Industry Productivity Program (DIPP) assistance. DIPP offers financial assistance to Canadian companies involved in the development and production of defence or defence related products for export. Aid is available for market research studies, research and development of products for export purposes, acquisition of modern tools and equipment to meet exacting military standards, and preproduction expenses in establishing manufacturing sources in Canada for defence or defence-related export markets.

EXPORT DEVELOPMENT CORPORATION

The EDC is a Crown corporation that provides financial services to Canadian exporters and forei buyers to facilitate and develop export trade. It does this through a wide range of insurance, guarant and financing services not usually available in the private sector.

EDC services assist Canadian exporters who are offering competitive products in terms of price, quality, delivery and service, to compete internationally. Exporters in other countries have access to similar support facilities from their governments.

There is no minimum value of export business required to qualify for support. The EDC provides:

Insurance. Canadian firms of any size can insure their export sales against non-payment by foreig buyers. The EDC normally assumes 90 per cent of the commercial and political risks, involving insolvency or default by the buyer, as well as blockage of funds, war or rebellion or cancellation of export permits in Canada.

Guarantees. The Corporation issues guarantees to banks making export loans or issuing performance and bid guarantees.

Export Financing. The EDC provides export financing, at both fixed and floating rates of interest, t foreign buyers of Canadian capital goods, equipment and services. Funds are disbursed directly by the EDC to Canadian exporters on behalf of the borrowers, in effect providing the exporters with cas sales. The EDC now offers six types of financing facilities.

EDC Offices

Head Office
Export Development Corporation
151 O'Connor Street
P.O. Box 655
Ottawa, Ontario
K1P 5T9
Telephone: (613) 598-2500

Atlantic Region
Export Development Corporation
Suite 1003
Toronto-Dominion Bank Building
1791 Barrington Street
Halifax, Nova Scotia
B3J 3L1
Telephone: (902) 429-0426

Ontario Region
Export Development Corporation
Suite 810
National Bank Building
150 York Street
P.O. Box 810
Toronto, Ontario
M5H 3S5
Telephone: (416) 364-0135

Québec Region
Export Development Corporation
Suite 2724, 800 Victoria Square
P.O. Box 124
Tour de la Bourse Postal Station
Montréal, Québec
H4Z 1C3
Telephone: (514) 878-1881

Prairie and Northern Region
Export Development Corporation
Suite 2140
Bow Valley Square III
255 - 5th Avenue S.W.
Calgary, Alberta
T2P 3G6
Telephone: (403) 294-0928

British Columbia and Yukon
Export Development Corporation
Suite 1030
One Bentall Centre
505 Burrard Street
Vancouver, British Columbia
V7X 1M5
Telephone: (604) 688-8658

Ottawa District Office
Export Development Corporation
151 O'Connor Street
P.O. Box 655
Ottawa, Canada
K1P 5T9
Telephone: (613) 598-2992

London District Office
Export Development Corporation
541 Talbot Street
Suite 303
London, Ontario
N6A 5C9
Telephone: (519) 645-5828

Manitoba/Saskatchewan District Office
Export Development Corporation
330 Portage Avenue
Suite 800
Winnipeg, Manitoba
R3C 0C4
Telephone: (204) 983-5114
Toll free No: 1-800-665-7871

CANADIAN COMMERCIAL CORPORATION

A federal Crown corporation, the Canadian Commercial Corporation (CCC) acts as prime contractor when foreign governments and international agencies wish to purchase goods and services from Canadian sources on a government-to-government basis.

In responding to such requests, CCC identifies Canadian sources, obtains bid opportunities for suppliers and certifies their capability to perform. In addition to participating in negotiations, the corporation follows through on contract management, inspection, acceptance, payment to suppliers and collection from customers.

For further information contact:

Canadian Commercial Corporation
50 O'Connor Street, 11th Floor
Ottawa, Ontario
K1A 0S6
Telephone: (613) 996-0034

CANADIAN INTERNATIONAL DEVELOPMENT AGENCY

CIDA operates and administers Canada's official international development assistance program in approximately 80 countries. CIDA's assistance program for Canadian exporters includes the Industrial Co-operation Program, which uses financial incentives to mobilize private sector resources for development, including direct technical co-operation. CIDA also prepares feasibility studies in relation to Canadian international development projects and operates bilateral programs including sponsorship of lines of credit.

For further information contact:

Canadian International Development Agency
Place du Centre
200 Promenade du Portage
Hull, Quebec
K1A 0G4
Telephone: (819) 997-5456 (general information) or (819) 994-4348 (Industrial Co-operation Division)

PROVINCIAL GOVERNMENTS

The provincial governments provide support directly related to the needs of exporters in each province. Many provincial governments are active in the international marketplace and have in-depth knowledge of countries which are important clients for their province's exporters.

Information on their programs can be obtained from the following addresses.

Province of Newfoundland and Labrador
Department of Development (and Tourism)
P.O. Box 8700
St. John's, Newfoundland
A1B 4J6
Telephone: (709) 576-2781
Fax: (709) 576-5936

Province of Prince Edward Island
Prince Edward Island Development Agency
1 First Street
West Royalty Industrial Park
Charlottetown, Prince Edward Island
C1E 1B0
Telephone: (902) 368-5800
Fax: (902) 566-4030

Province of Nova Scotia
Department of Industry, Trade and Technology
World Trade and Convention Centre
1800 Argyle Street
P.O. Box 519
Halifax, Nova Scotia
B3J 2R7
Telephone: (902) 424-4242
Fax: (902) 424-5739

Province of New Brunswick
Department of Commerce and Technology
Centennial Building
P.O. Box 6000
Fredericton, New Brunswick
E3B 5H1
Telephone: (506) 453-3984
Fax: (506) 453-7904

Province of Quebec
Ministère des Affaires internationales
770, rue Sherbrooke ouest, 7e étage
Montréal, Québec
H3A 1G1
Telephone: (514) 499-2181
Fax: (514) 873-7468

Province of Ontario
Ministry of Industry, Trade and Technology
Hearst Block
900 Bay Street
Toronto, Ontario
M7A 2E1
Telephone: (416) 965-1617
Fax: (416) 965-0341

Province of Manitoba
Department of Industry, Trade and Tourism
4th Floor
155 Carlton Street
Winnipeg, Manitoba
R3C 3H8
Telephone: (204) 945-2456
Fax: (204) 957-1793

Province of Saskatchewan
Department of Economic Diversification and Trade
1919 Saskatchewan Drive
Regina, Saskatchewan
S4P 3V7
Telephone: (306) 787-2222
Fax: (306) 787-2198

Province of Alberta
Department of Economic Development and Trade
Sterling Place - 11th Floor
9940-106th Street
Edmonton, Alberta
T5K 2P6
Telephone: (403) 427-4809
Fax: (403) 427-0610

Province of British Columbia
Ministry of International Business and Immigration
750 Pacific Boulevard South
Vancouver, British Columbia
V6B 5E7
Telephone: (604) 660-4567
Fax: (604) 660-2457

NON-GOVERNMENTAL SUPPORT FOR EXPORTERS

Canadian Exporters' Association

The Canadian Exporters' Association is a national, private, non-profit organization working towards the enhancement and promotion of Canadian exports since 1943.

The CEA consists of more than 1 000 Canadian companies involved in exporting. These include firms from all sectors, such as large and small manufacturers, primary producers, consulting firms, trading houses, freight forwarders, banks and other financial institutions and insurance companies.

Member Services

The CEA maintains information and has access to up-to-date and accurate data on all trade related issues. The following briefly outlines the main information and problem-solving services offered to CEA member firms:

- Regular newsletters covering current items of interest related to Canada and international trade.
- An extensive lending library containing more than 5 000 texts, periodicals, papers and market reports covering international business.
- Regular contacts with foreign buyers and agents, foreign embassies and Canadian sources on export and overseas project opportunities.
- Extensive knowledge of federal and provincial government support programs available to exporters. The CEA can answer questions such as: What is available? What are the conditions to be met? Who are the officials specifically responsible?
- Advice about locating and using Canadian Trading Houses that are capable of handling exports of goods, services or projects.
- Sources of export-related services such as freight forwarders, consultants, marine insurance brokers, banking and countertrade.
- Detailed and immediate response to enquiries on any aspect of international business.

Member Meetings

The CEA holds regular meetings between various federal and provincial trade officials and interested member firms on issues and concerns related to their export businesses. Many of these meetings take place through the association committee structure.

The regular standing committees of the CEA are:

- policy development
- foreign capital projects
- export financing
- development aid
- export traffic
- export promotion government liaison
- high tech

In addition, the CEA has the Council of Canadian Trading Houses (CCTH), a grouping of accredited trading houses, as an integral part of the Association.

Finally, the CEA organizes periodic conferences, seminars and workshops, plus an annual convention with timely and valuable discussions on matters of current interest to exporters.

Canadian Exporters' Association
Suite 250, 99 Bank Street
Ottawa, Ontario
K1P 6B9
Telephone: (613) 238-8888
Telex: 053-4888

Chartered Banks

The banks in Canada have developed sizeable international organizations and can provide a number of services for potential exporters. The Canadian Bankers' Association publication *Importing and Exporting — How Canadian Banks Can Help* lists some of these services:

- Appraise, advise and submit surveys, report on market conditions, sales prospects and import and exchange regulations in Canada and abroad.
- Prepare reports and advise on the credit status of buyers and potential buyers in foreign countries.
- Provide liaison between foreign financial assistance corporations.
- Handle and give guidance on commercial letters of credit.
- Pay or negotiate drafts drawn under letters of credit on foreign or Canadian banks.

- Collect time and sight drafts drawn by exporters on foreign importers.
- Advance money against drafts for collection or against drafts drawn under letters of credit in favour of exporters.
- Fulfill orders of exporters in their foreign exchange transactions in the principal foreign currencies for both immediate and future delivery.
- Handle foreign remittances and transfers.
- Provide liaison between federal and provincial government organizations in their various assistance programs for exporters.
- Assist Canadian companies in entering the export business.

The Canadian Bankers' Association
P.O. Box 282
Toronto Dominion Centre
Toronto, Ontario
M5K 1K2

1981 McGill College Avenue
Suite 675
Montreal, Quebec
H3A 2X2

Canadian Manufacturers' Association

With its national headquarters in Toronto, the Canadian Manufacturers' Association (CMA) operates 7 regional divisions, 22 branches and 11 offices across Canada. The CMA has long been active in Canadian international trade.

As part of its international trade activities on behalf of Canadian manufacturers, the CMA publishes *World Trade News* monthly and *Canadian Trade Index* annually as well as regular *Export Bulletins* and manuals on such topics as understanding export and countertrade advice for exporters. It also conducts courses on export documentation, seminars on export marketing and organizes and escorts outgoing Canadian and incoming foreign trade missions.

Head Office
Export Department
One Yonge Street
Suite 1400
Toronto, Ontario
M5E 1J9
Telephone: (416) 363-7261
Telex: 065-24693

Canadian Chamber of Commerce

The Canadian Chamber of Commerce and chambers of commerce and boards of trade in a number of centres carry out a broad range of activities designed to promote Canadian trade. These include: seminars and conferences; providing information on specific markets; documentation services required for exporting; and programs to put Canadian companies in touch with foreign buyers. The chamber also administers a series of bilateral and regional trade councils and recently opened a Canadian trade office in Taipei, Taiwan.

Head Office
International Affairs Division
55 Metcalfe Street
Suite 1160
Ottawa, Ontario
K1P 6N4
Telephone: (613) 238-4000
Telex: 053-3051
Fax: (613) 238-7643

Bilateral Trade Associations

There are a number of bilateral trade associations which link Canadian businesspeople with their counterparts in specific countries. The names of these associations vary, examples being the British-Canadian Trade Association, the Brazil-Canada Chamber of Commerce, and the Canada-Japan Businessmen's Committee. The actual titles and addresses of these associations can be obtained from the geographic trade development divisions of External Affairs and International Trade Canada.

CENTRES FOR INTERNATIONAL BUSINESS STUDIES

In recent years, the faculties of Commerce, Business and Management at many Canadian universities have become interested and involved in assisting Canadian exporters. External Affairs and International Trade Canada sponsors "Centres for International Business Studies" at the universities listed below.

The centres have three main functions:

- to train students in international trade and business knowledge and skills;
- to provide seminars, workshops and similar functions for current managers; and
- to undertake research on international trade and business questions.

Exporters interested in these areas might wish to contact the nearest centre.

Director
Centre for International Business Studies
School of Business Administration
Dalhousie University
6152 Coburg Street
Halifax, Nova Scotia
B3H 1Z5
Telephone: (902) 424-6553
Fax: (902) 424-1644

Directeur
Centre d'études en administration internationale
Écoles des Hautes Études Commerciales (HEC)
5255, avenue Decelles
Montréal, Québec
H3T 1V6
Telephone: (514) 340-6194
Fax: (514) 340-6411

Director
Centre for Trade Policy and Law
Room 304
Social Science Research Building
Carleton University
Ottawa, Ontario
K1S 5B6
Telephone: (613) 788-6696
Fax: (613) 788-2889

Director
Centre for International Business Studies
Office of Administration
University of Western Ontario
London, Ontario
N6A 3K7
Telephone: (519) 661-3237
Fax: (519) 661-3292

Director
Centre for International Business Studies
Faculty of Administrative Studies
University of Manitoba
Winnipeg, Manitoba
R3T 2N2
Telephone: (204) 474-8851
Fax: (204) 275-5807

Director
Centre for International Business Studies
College of Commerce
University of Saskatchewan
Saskatoon, Saskatchewan
S7N 0W0
Telephone: (306) 966-4786
Fax: (306) 966-8709

Director
Centre for International Business Studies
Department of Marketing and Economic Analysis
Faculty of Business
University of Alberta
Edmonton, Alberta
T6G 2R6
Telephone: (403) 492-2921
Fax: (403) 492-3325

Director
Centre for International Business Studies
Faculty of Commerce and Business Administration
University of British Columbia
2053 Main Mall
Vancouver, British Columbia
V6T 1Y8
Telephone: (604) 224-8494
Fax: (604) 228-6970

Other Similar Centres

Executive Director
Ontario Centre for International Business
Room 227A
Administrative Studies Building
York University
4700 Keele Street
North York, Ontario
M3J 1P3
Telephone: (416) 736-5363
Fax: (416) 736-5772

Director
Centre for International Marketing
P.O. Box 440
Tilley Hall, Room 330
University of New Brunswick
Fredericton, New Brunswick
E3B 5H1
Telephone: (506) 453-4869
Fax: (506) 453-3561

Directeur
Centre de commercialisation internationale
Université de Moncton
Moncton, Nouveau-Brunswick
E1A 3E9
Telephone: (506) 858-4555
Fax: (506) 453-4599

Executive Director
The International Centre
The University of Calgary
2500 University Drive
Calgary, Alberta
T2N 1N4
Telephone: (403) 220-3804
Fax: (403) 289-0171

Director
Wilfrid Laurier Development Centre
Wilfrid Laurier University
189 King Street North
Waterloo, Ontario
N2L 3C5
Telephone: (519) 884-1970 Ext. 2871
Fax: (519) 886-9351

Director
Centre for International Management
Faculty of Management
Samuel Bronfman Building
1001 Sherbrooke Street West
Montreal, Quebec
H3A 1G5
Telephone: (514) 398-4000
Fax: (514) 398-3876

Appendix I

COUNTERTRADE

DEFINITIONS

Countertrade, is a generic term encompassing all transactions where a sale to an importer (public or private sector) is conditional upon a reciprocal purchase or undertaking by the exporter. The common forms of countertrade include barter, counterpurchase, advance purchase, offsets, buyback and bilateral agreements. The terms and definitions provided are based on a review of widely accepted definitions.

Barter

Barter is commonly referred to as payment in kind. Therefore, it does not involve the use of money and is bound by a single contract between the trading partners, which specifies the quantity of goods to be exchanged. In such transactions, third parties can be involved, but are precluded from signing the barter agreement. A variation of barter may call for partial payment in goods, with the balance in hard currency.

True barter deals are uncommon because of many difficult issues that are primarily due to the valuation of goods relative to each other. These issues include: variations in the quality of the merchandise; variations in quantities involved in each shipment; the difficulty of achieving a 100 per cent balance of trade on both sides; and prices agreed to under the contract differing substantially from prices on the world market. (This is because each party wants to establish an asking price in relation to the price asked by the other.)

Counterpurchase

Counterpurchase is the most common form of countertrade. The exporter undertakes to purchase goods or services from the importer to a given percentage of the value of the sales contract. This can range from 5 per cent to more than 100 per cent depending on the circumstances. The commitment may also vary from "best efforts" to a fixed percentage with a penalty clause if conditions are not met.

A major feature of counterpurchase is that two separate contracts should be signed and linked: one for the sale by the exporter and the other representing the counterpurchase obligation which can be fulfilled over a certain period of time. This period can be negotiable or fixed depending on the circumstances. Unlike barter, each contract should have its own financing arrangements and not involve payment in kind. This overcomes the valuation problems found in barter and enables the exporters to be paid on delivery of their goods. In addition, exporters are given a certain amount of time to find a suitable product for their purchase obligation. It is common for such obligations to be transferred to a trading house by the exporter. (Further comments on the advantages of separate contracts in counterpurchase can be found in the section on contract considerations).

Advance Purchase

The major purpose of advance purchase is to secure payment in advance for the exporter's goods and thereby eliminate the risk of non-payment. The hard currency generated by the advance purchase is placed in an escrow account outside the customer's country to ensure access to it.

Advance purchase is a technique increasingly being used in dealing with severely indebted countries. This technique can be used to generate hard currency for the importer.

The major problem in this approach is identifying or, in some cases, assisting in developing appropriate products to use for the advance purchase. In many cases, the goods being exported must be considered incremental to existing trade in order to receive approval from the central authorities for the advance purchase. The introduction of new products offshore or new markets for existing exports seem to be normal or sufficient criteria to justify advance purchase.

Offsets

Offsets are normally found in large capital projects or where there is substantial government procurement of military goods. They are usually requested to ensure that some incremental industrial or economic benefit is derived from the import expenditure.

Usually, offset activities are directly related to the product or services being purchased. In a number of cases, counterpurchase of unrelated goods or commodities, promotion of tourism and the export marketing of unrelated products may form part of an "offset" package, but these are considered to be indirect offsets. Direct forms of offsets include the following:

Co-production. Overseas production based on a government-to-government agreement that permits a foreign government or producer to acquire the technical information and know-how to manufacture all or part of an item. It includes government-to-government licenced production. It excludes licenced production based on direct commercial arrangements by manufacturers.

Licenced Production. Overseas production of all or part of an item of equipment based on transfer of technical information and know-how under direct commercial arrangement between a manufacturer and a foreign government producer.

Sub-contractor Production. Overseas production of a part or an item of equipment. The subcontract does not involve the licence of technical information or know-how and is usually a direct commercial arrangement between the manufacturer and a foreign producer.

Overseas Investment. Investment arising from the offset agreement, taking the form of capital invested to establish or expand a subsidiary or joint venture in the foreign country.

Technology Transfer (other than licenced production and co-production). Transfer of technology occurring as a result of an offset agreement that may take the form of:

- research and development conducted abroad;
- technical assistance provided to the subsidiary or joint venture (see Overseas Investment); or
- other activities under direct commercial arrangement between the manufacturer and a foreign entity.

The forms of the offset in individual contracts may vary according to the needs and desires of the procuring country. The opportunities for undertaking offsets may also be limited by the level and sophistication of the industrial base and by the country's comparative economic advantages.

Buyback

Buyback is most commonly found in the sale or modification of capital plant and equipment. It can involve either partial or full payment by means of the resultant product or a commitment to purchase the resultant product. Such deals are normally for large sums and involve a longer fulfilment period, anywhere from 5 to 15 years. Buyback percentages of the original sale may vary. Buyback commonly involves large-scale corporations with the marketing structure and internal capacity to absorb the buyback obligation. The contractual arrangements may be similar to counterpurchase, with the two transactions linked but financially separate.

Bilateral Agreements

Bilateral trade and payment arrangements are a systematized form of barter, binding all or a certain amount of trade between two countries. This may arise from the lack of hard currency of one or both countries. These trade balancing arrangements commonly make use of clearing accounts, which permit trade to take place without the need for foreign exchange and which are normally balanced after a pre-determined time. Such agreements are common amongst Comecon and less-developed nations.

From time to time, trade under bilateral agreements may become severely imbalanced and balances become difficult to clear, primarily towards the end of the agreed-upon accounting period. Under such circumstances, one country may owe the partner an outstanding amount of goods, but may be unable or unwilling to supply. An exporter wishing to sell goods to the partner can use this surplus through switch trading, usually through a switch specialist, with the sale being credited to the owing country's account. Normally, however, the goods sold must be from the previously agreed-upon list

of goods to be exchanged. Payment is made by the debtor country through the switch specialist (less a fee) to the exporter.

GLOBAL COUNTERTRADE PERSPECTIVE

The current and rapid developments in countertrade have their origin in the ten-fold increase in oil prices between 1973 and 1980, which saw the Western banking system awash with petro-dollars. All through the 1970s, these petro-dollars were recycled to East European and developing countries to finance industrial development projects (and in some cases, oil imports) with the end result that these countries were soon saddled with huge external debts. Towards the end of the 1970s, they started to experience difficulties in meeting their loan-servicing obligations. The precarious nature of their position was exacerbated by the dramatic increase in interest rates of the early 1980s, the concurrent global economic recession and the resultant drop in commodity prices. As commodity exports have been major generators of foreign exchange for many developing nations, the drop in prices further aggravated their situation.

As a result of these conditions, East European countries began, in the 1970s, to increasingly use countertrade as a practical way of generating some or all of their hard currency needs for new industrial projects. It was also seen as a way to foster exports to the West and to minimize the outlay of their hard currency. This concept, which was considered successful, was soon copied by a number of underdeveloped and developing countries.

Various press reports cite the amount of countertrade as being anywhere from 1 - 40 per cent of global trade, or somewhere in the vicinity of $15 - 900 billion (US). The reasons for the tremendous variations in global estimates are caused by the lack of agreement on what constitutes countertrade, the lack of data on transactions and the secrecy that surrounds its practice. A conservative estimate of about 10 per cent of world trade, developed by Business International of New York, appears to be the most widely accepted figure.

Any full examination of global countertrade needs to be conducted on a regional basis. This would include the following factors:

- East-West countertrade between Organization for Economic Co-operation and Development (OECD) countries and East bloc countries;
- North-South countertrade between OECD and less-developed countries (LDCS) or newly-industrialized countries (NICs);
- South-South countertrade between LDCs and NICs;
- East-East amd East-South countertrade between Eastern bloc countries and LDCs or NICs;
- North-North countertrade between OECD countries. This is not always recognized as countertrade since it is associated with military procurement.

The statistics of particular relevance to exporters pertain to the East-West and North-South countertrade. These statistics represented 20 per cent and 6 per cent of OECD exports to theses regions, respectively, in 1984.

It is evident that numerous forms of countertrade are currently being practised for a variety of reasons. Participating countries (some 88 identified in a study conducted by the New York Foreign Trade Council) vary in their experience with, and results from, countertrade and are continually refining their policies or legislation to extract the maximum benefits (actual or perceived) from the practice. These changes in the direction and growth of countertrade, and the continuing indebtedness of developing countries, will ensure that countertrade will remain a dominant feature of global trade for the forseeable future.

CANADIAN COUNTERTRADE PERSPECTIVE

While countertrade may constitute 10 per cent of world trade, Canadian exports have been minimally affected to date. The key factors which have kept this impact minimal include:

- the dominance of the U.S. and other OECD countries as export markets for Canadian goods; and
- the predominance of food and raw materials in Canada's exports which, to date, have not been subject to extensive countertrade pressures.

After applying the estimates of 20 per cent countertrade in East-West trade and 6 per cent in North-South trade, using the knowledge of countertrade experiences of Canadian exporters, and studying preliminary results of an internal countertrade study currently underway, it is estimated that approximately $600 million of 1984 Canadian exports involved some form or degree of countertrade. This was equivalent to 0.5 per cent of total Canadian exports.

While these figures are relatively small, most of the demands have fallen on a core grouping of Canadian industry sectors:

- transportation equipment – air, rail and urban;
- telecommunication, defence and other high technology products;
- resource and energy extraction, processing and generation equipment;
- agricultural and forestry equipment; and
- engineering and consulting services.

Countertrade is expected to grow at a significant rate for companies in these sectors as they increase their efforts to penetrate foreign markets.

DEALING WITH COUNTERTRADE

Developing a Corporate Policy and Organizational Response

While there are numerous alternatives for coping with countertrade demands and the disposal of countertrade goods, such action should be consistent with an overall *prior* evaluation of the anticipated type, level and frequency of countertrade to be encountered.

You should make such an evaluation in the context of your firm's long-term export marketing strategy, and answer the following questions:

- Does your marketing strategy include countries that currently require countertrade? Do the practices or legislation affect your customers or product market? Are there any trends or developments in these countries that may lead to changes in, or to new, countertrade requirements?
- What form of countertrade is required? Counterpurchase? Offsets? Buyback? Barter? Other?
- What is the countertrade strategy of your competitors?
- What will be the effect on your sales to existing markets or to new markets if your policy is not to engage in countertrade?

Ideally such an analysis should be undertaken in every existing or target market, if only in a cursory manner. The findings will provide you with at least a preliminary assessment of the countertrade demands that might be expected and provide a basis for further internal investigation.

Answers relating to the type, level and frequency of countertrade anticipated will guide your firm in determining the type of organizational response required. Frequency and type of countertrade will determine the sophistication and resources needed to cope with it. These may range from an internal "expert" on countertrade (to co-ordinate company activities and develop contacts with various trading houses, government services and other resources) to the structuring of a related trading house to undertake all aspects of counterpurchase, buybacks, offsets, etc.

Additional Information

If you require additional information on current countertrade practices and trading houses which have countertrade experience, we suggest you contact the:

Canadian Export Association
Trading House and Countertrade Division
Suite 250, 99 Bank Street
Ottawa, Ontario
K1P 6B9
Telephone: (613) 238-8888

or

External Affairs and International Trade Canada
Export Finance, Capital Projects and Trading House Division (TPF)
5th Floor, Tower C
Lester B. Pearson Building
125 Sussex Drive
Ottawa, Ontario
K1A 0G2
Telephone: (613) 996-1419

Appendix II

TRADING HOUSES

DEFINITION OF A TRADING HOUSE

Trading houses are companies specializing in exporting, importing and third country trading in goods and services produced or provided by other parties, and which provide services related to these activities.

A wide variety of trading houses exist; among the most common are:

- an export management company managing all or part of the export function on behalf of manufacturers;
- an export consortium owned by and managing the export function on behalf of consortium members on an ad hoc or ongoing basis;
- an export co-operative managing the export function on behalf of co-operating members;
- a corporate trading company responsible for the exports of the parent company and other products and/or assuming the parent's countertrade obligations when required;
- a buying house sourcing on behalf of offshore clients;
- a procurement agent sourcing for offshore projects;
- export merchants buying and selling products on their own behalf;
- an export agent acting on behalf of others on a commission and/or fee basis.

SERVICES PROVIDED BY TRADING HOUSES

Canadian companies interested in exporting through a trading house have many kinds of services at their disposal, for example:

- market identification and selection;
- buyer identification, evaluation and selection;
- identification of product and packaging specifications;
- price negotiation;
- evaluation, recommendation and appointment of overseas agents, representatives, distributors, services, organizations, etc.;
- negotiating the terms of the commercial contract which includes such things as the obligations of the buyer and seller, terms of payment and how the goods will be shipped;
- financial arrangements;
- promotional support abroad;
- shipping arrangements;
- provision of after sales service;
- preparation of all required export documents;
- protection against export risks (those relating to commercial and political factors, exchange rates, shipping, etc.); and
- satisfaction of claims.

HOW TRADING HOUSES OPERATE

The arrangements that companies enter into with trading houses cover a wide spectrum. At one end are agreements under which the trading houses perform all the functions involved in buying from a producer and reselling abroad. At the other, the trading houses simply act as an agent or consultant. This type of work can include identifying potential clients abroad and carrying out certain commercial tasks. Remuneration is usually in the form of a fee or commission. There are any number of other arrangements between these two extremes. But, basically, trading house functions can be divided into three major categories:

1. Trading houses acting for the producer. This includes the commission agents who operate as the "export department" for the principal (now sometimes referred to as a combination export manager or export management company). Also included are commission agents operating on a non-exclusive basis who retain freedom to purchase on commission from suppliers of their choice.

2. Trading houses acting for themselves as principal. Usually termed an export merchant, the export trading house operating

as principal buys outright from the producer and, in effect, turns the transaction from the Canadian producer's point of view into a domestic transaction. Export merchants market the product abroad and normally accept on their own account all financial risks including credit, foreign exchange and shipping risks. Although export merchants often retain the freedom to buy from whomever they wish, in some cases Canadian export trading houses working on this basis will represent, exclusively, specific producers with whom they have concluded suitable contractual arrangements. An exclusive representation in some or all foreign markets is usually a prerequisite if product promotion such as advertising is to be undertaken.

3. Trading houses acting for buyers who are the principal. Foreign buyers often look to Canadian trading houses for assistance in sourcing their Canadian purchases. Although there are different types of trading houses engaged in this field in Canada, many enter it as a natural extension of reciprocal two-way trading arrangements with affiliated trading organizations abroad.

WHO USES TRADING HOUSES?

- Buyers in other countries seeking Canadian goods.
- Producers and manufacturers inexperienced in export.
- Producers and manufacturers who do not have the resources to establish their own export department, or who do not wish to do so because they are unable to determine whether a remunerative export market exists.
- Organizations already exporting but who wish to make use of an export trading company's contacts in a particular market, or markets.
- Organizations already exporting to major markets but who cannot justify the cost of servicing smaller markets. They wish therefore to take advantage of an export trading house's ability to "pool" marketing costs with other producers to service the smaller markets.

HOW TO CHOOSE A TRADING HOUSE

Since the relationship between a company and a trading house is a partnership, selecting a trading house is serious business. A proper match will not occur if there are misunderstandings concerning the abilities and expectations of either party. The confidence needed for a beneficial partnership can be established only if both parties show they are serious and honest in doing business. We recommend that you consider the following steps in selecting a trading house:

1. Carfully define your exporting objectives. For example, what share of production can be committed to exporting on a regular basis? The capacity for occasional export activity is not enough to warrant vigorous support from a trading house.

2. Specify your needs. Decide which of the export tasks you wish to undertake and which ones you will be delegating to the trading house. For example, it may be in your best interest to identify the foreign markets which present the greatest sales potential for your products. This is a task that could be performed in consultation with trading houses covering several markets. Consultation with only one trading house might lead to undue concentration on the markets in which the trading house happens to be best established.

3. Define the nature of product expertise needed. This can facilitate the selection process, since possibly only a limited number of trading houses possess the required expertise or have the capacity for developing it quickly. In many cases, however, the requirement is for the trading house to provide market and exporting expertise, while the manufacturers provide product expertise.

4. Determine the size of transaction normally handled by the trading house. For example, if your company manufactures capital equipment which has a unit price in the millions of dollars, there is no sense in selecting a trading house that does not have the financial capability to provide the necessary performance warranty. Nor will a trading house that specializes in capital equipment be interested in handling consumer items selling at a few dollars each.

5. Length of experience. This is a definite sign of competence which should not be overlooked in selecting a trading house. International trade is a difficult area of activity. The trading houses that have been in operation for several years have obviously been operating in a competent and profitable manner.

6. Investigate the reputation of the trading house.

- ascertain if the trading house has been accredited by the Council of Canadian Trading Houses (CCTH);
- contact the trading house's banker to determine how well they manage their banking activities;
- seek a list of manufacturers now represented by the trading house, ask them if they are satisfied with the services they are receiving (and expect the trading house to contact some of your clients, or in some way seek evidence of your dedication to having your product exported);
- contact the trade commissioners, in the areas in which you wish to market your product, to see how well the trading house is servicing those markets on behalf of Canadian exporters; and
- request a Dun & Bradstreet report.

Motivation. Assess whether a trading house is highly interested in investing the time, energy and money required to develop the sale of your products abroad. The level of motivation will usually be reflected in questions about the products, visits to the plant and responses to corporate requests.

WHAT TRADING HOUSES LOOK FOR IN A MANUFACTURER

The success of a trading house depends, to a large extent, upon how well it locates, develops, negotiates with and retains reliable sources of competitive products. For trading houses that deal exclusively with commodities, sourcing requires finding and bargaining among many to find the lowest cost for the commodities. For trading houses that deal with manufactured products, sourcing requires finding manufacturers, with a marketable product, who are interested in having their product exported.

The trading house will look for:

An Exportable Product. The trading house must be sure that the manufacturer's product is appropriate for export. It may be that the product is well-suited for the Canadian market, but cannot be competitive in overseas markets.

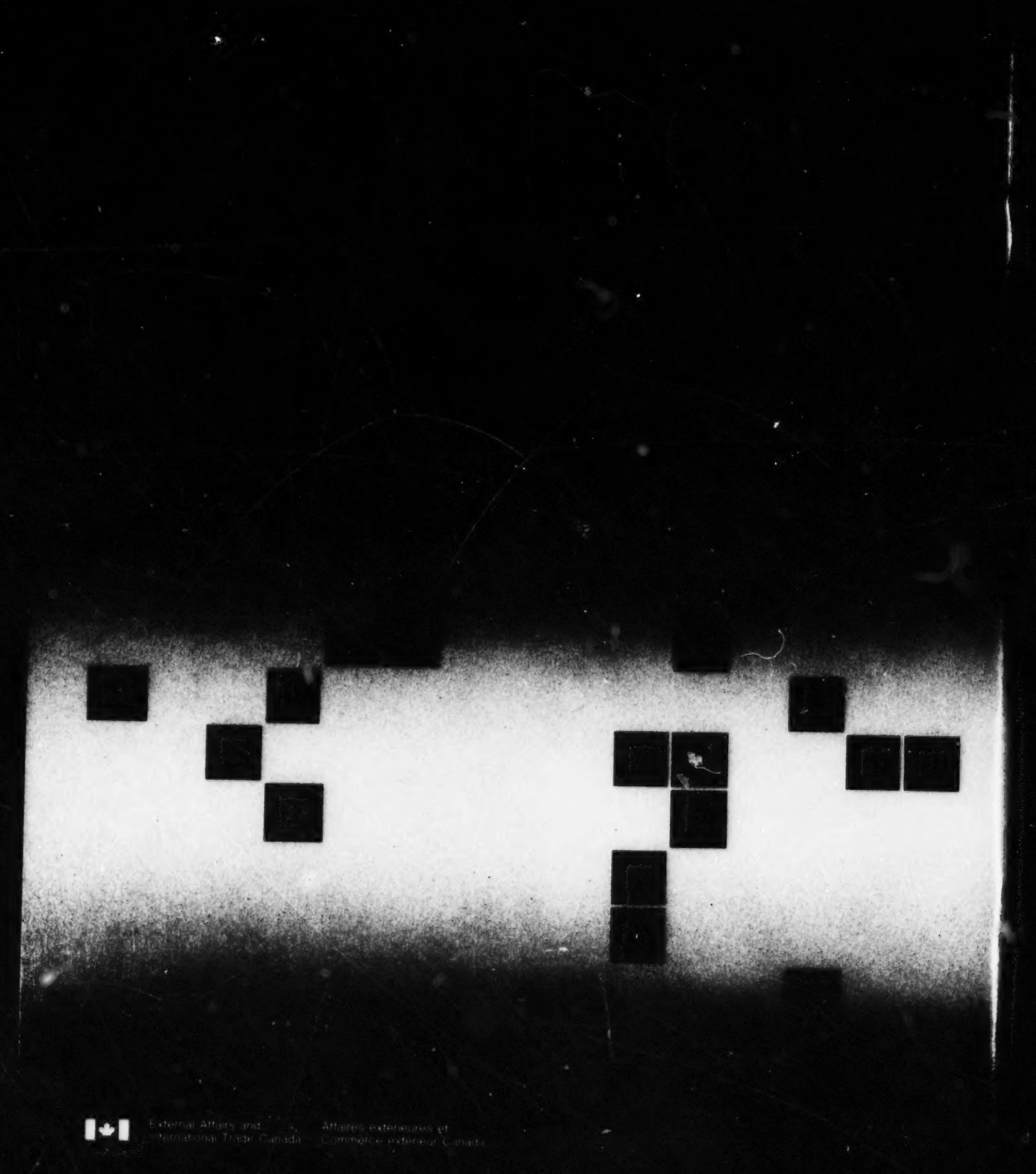
Commitment to Export. Trading houses look first for a real commitment to exporting from the manufacturers. Exporting must not be viewed by the manufacturer as a part-time occupation or as a means of using up excess production. The trading house will be investing time and dollars in teaching the manufacturer about product preparation for external markets and helping the manufacturer prepare the product for overseas sale. The trading house must have the confidence that there will be a constant supply of the product with reliable support service.

Exclusivity. In balancing the requirements of the trading house and supplier, one of the most common problems is exclusivity. Trading companies will not willingly invest resources to develop a particular market only to have the supplier deal directly with the market or use another channel. Mutual trust must be established to help ensure that this does not happen. In many cases it is realistic to have a written agreement between the trading house and the supplier outlining the responsibilities and obligations of each party.

A Fair Pricing Arrangement. The supplier wishes to increase profit by achieving incremental sales in conjunction with a trading house. The trading house is equally interested in profit. Each must recognize the tasks and costs to be met by the other. There would be no incentive to export if there were no profits. Negotiating a satisfactory pricing arrangement is a make-or-break prerequisite for an export transaction. In domestic transactions the manufacturer covers marketing and selling costs. If the trading house covers these costs for export transactions then the manufacturer should deduct these costs when calculating the selling price to the trading house.

Mutual understanding plays a large part in the success of the relationship between a trading house and a manufacturer. Both sides must understand and appreciate the other's legitimate concerns. The manufacturer should expect the trading house to look for an exportable product, a real commitment to exporting, a willingness to grant exclusivity and a realization by the manufacturer that products sold to a trading house cannot be priced at the same level as for domestic sales.

A manufacturer and trading house that are well matched and that work together honestly and diligently can increase the strength and profitability of both companies.



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